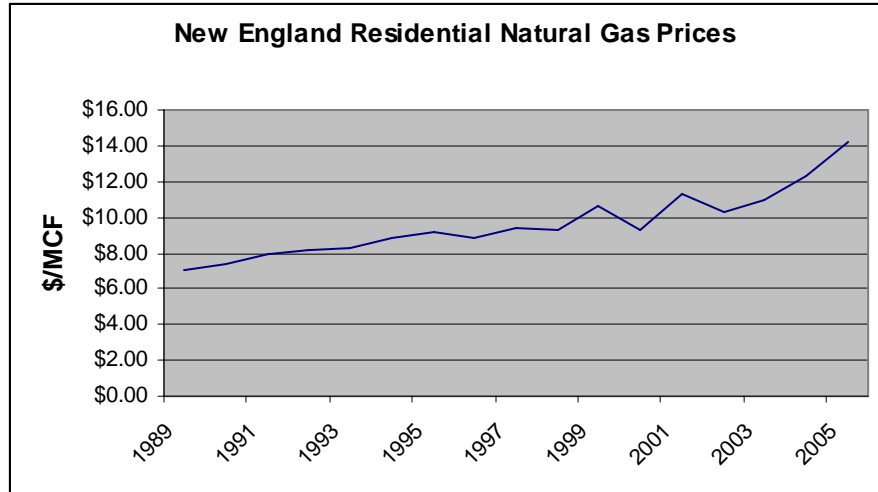


## **Governor Donald L. Carcieri's Energy Agenda Five-Point Plan**

Governor Carcieri has adopted a five-point plan to alleviate the crisis in energy cost to Rhode Island's residents and businesses. By executive order, the Governor has directed that a restructured State Energy Office accomplish the following:

### *1. Increase Natural Gas Supplies through Regional Siting of LNG Facilities*

The ever-rising cost of natural gas has caused not only high heating prices for Rhode Island's residents and businesses, but has also caused unprecedented electric energy prices. Further, the availability of sufficient natural gas for both heating and electrical generation becomes uncertain during the coldest days of the winter.



This is not an issue that is unique to Rhode Island. All our neighboring states are faced with the same challenge, and the solution must be a regional one.

This makes an increase in supply crucial not only to mitigate electrical and heating costs, but also to prevent diversions of the available gas to heating purposes from electrical generations. A choice between electrical blackouts and no heat is not an acceptable outcome.

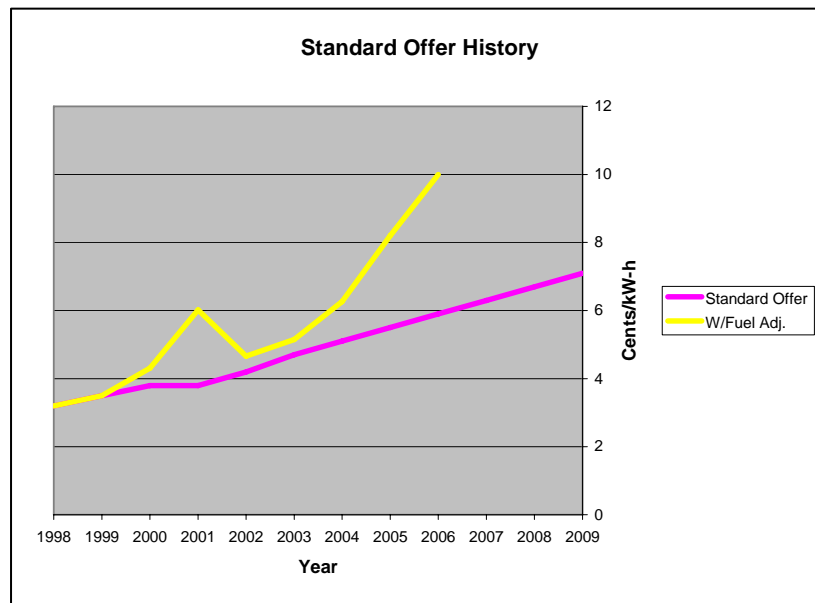
Liquefied Natural Gas can provide a solution. LNG can infuse the market, assuring that sufficient supply will exist for both heating and electrical generation needs. LNG, however, comes with the inherent risks associated with siting facilities in close proximity to population centers.

The Carcieri Administration has been working diligently with the other New England states, as well as Canada's Eastern provinces to overcome this challenge. Our Canadian neighbors are well along with development of two LNG facilities, and two other supply sources that will satisfy not only Canada's native demand, but can provide badly needed additional gas supply to the rest of the Northeast.

More work is necessary to fulfill the promise these projects hold, and Rhode Island will continue to cooperate in this regional effort to ensure that we increase the supply of natural gas to residents of the Ocean State.

## 2. Reform the Electric Energy Market

The post-restructuring evolution of the electric energy market has produced an outcome that has not been beneficial to consumers. Electric markets are complex and convoluted because of the instantaneous nature of the value of the product. Under the current market structure, much of the time the wholesale price of electricity is set by the price of natural gas.



Rhode Island is fortunate in that most Rhode Islanders are still able to purchase their electricity under the so-called “standard offer.” The standard offer is a mechanism devised at the time of electric industry restructuring to enable a transition from utility supplied electricity to competitive market supplied electricity. The original intent was that the standard offer price would escalate rapidly, making competitive supply more attractive than remaining under utility supply. The standard offer pricing mechanism is

schedule to terminate in 2009.

Since restructuring, the competitive market for electricity has not evolved. Instead, the market price for electricity has remained higher than the price available from the standard offer. While energy experts disagree on the reasons for the disparity, it has become obvious that the expectations for a competitive market have not been fulfilled.

The Carcieri Administration is committed to working with the Federal Energy Regulatory Commission to cure the market pricing issue before the end of the standard offer in 2009.

## 3. Address the Needs of Low-Income Rhode Islanders

Energy costs affect each Rhode Islander, but more so our low-income citizens. Governor Carcieri has proposed that the state use expected increased revenues from electricity and natural gas gross earnings taxes to create a fund to help Rhode Island senior citizens and individuals with disabilities pay their home heating bills. The fund would supplement assistance from the federal government’s Low Income Home Energy Assistance Program (LIHEAP).

Governor Carcieri has called on the General Assembly to approve a plan to use the full \$4 million in additional revenue from the gross earnings tax on electricity and gas as a special emergency assistance fund for the low-income elderly and disabled. This fund would be primarily designed to enable low-income elderly and disabled residents to obtain additional home heating assistance once their LIHEAP grant is expended.

To qualify, seniors should be at least 60 years of age, and individuals with disabilities should qualify for federal Social Security Insurance (SSI) benefits. The Rhode Island Energy Office estimates that this fund would enable an increase in average energy assistance benefits to these two populations from \$375 to over \$650.

#### 4. Secure Renewable Energy Resources for Rhode Island

Of the many forms of renewable energy alternatives available, wind shows the most promise. Wind power is clean, green power that is not subject to variations and increases in fuel price. Thirty-four states already have wind energy projects. Between 1981 and 2004, installed capacity increased from 10 megawatts to 6,740 megawatts nationwide. Wind currently provides 20 percent of electric power in Denmark and almost 5 percent in Germany.



Rhode Island must explore this option. The State Energy Office, in cooperation with the Rhode Island Economic Development Corporation (RIEDC), has already begun an effort to facilitate the development of wind power in Rhode Island. Ultimately, Governor Carcieri hopes that 15 percent of Rhode Island's electricity demand will be supplied by environmentally progressive wind power.

#### 5. Statewide Energy Audit

The State of Rhode Island is itself a major user of electric energy, oil, and natural gas. In FY2004, prior to the recent natural gas and electric rate increase, state government's total utility cost was \$36 million, with natural gas use continuing to increase across nearly every state department and agency. In fact, a majority of state departments continue to see energy cost increases. This affects every Rhode Islander through the taxes paid to support the state's own electric and gas bills. It also impacts demand in Rhode Island's larger energy market.

The State Energy Office will undertake a two-level process to reduce state government energy costs. First, an education program will take place to remind all state departments of various steps that each employee can take to reduce energy costs. Second, a professional energy management firm will be selected to identify and implement energy cost reduction strategies statewide, on a shared savings basis.